

**HOLD**

TP: Rs 590 | ▲ 2%

WIPRO

| IT Services

| 16 July 2021

## Simplified operating model pays off

- WPRO posted an upbeat QoQ performance in Q1FY22 with 12% CC revenue growth, ahead of our (8.9%) and street estimates
- EBIT margin at 19% beat estimates despite sector-wide supply constraints, owing to better margin execution at Capco
- We raise target P/E to 21.7x on strong guidance, roll to a Jun'22 TP of Rs 590 (vs. Rs 470) and realign to HOLD (vs. ADD) per our new rating scale

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**All-round outperformance:** WPRO reported 12.2% USD QoQ revenue growth in Q1 vs. our estimate of 9.1% USD/8.9% CC. Organic growth of 4.9% CC was the highest in the last 38 quarters, outperforming the guided range of 2-4% QoQ CC. Growth was helmed by BFSI/global media & telecom/retail at 22.8%/14.4%/14.2% QoQ USD. The technology and manufacturing-hi-tech verticals remained weak with flattish growth. BFSI was especially strong due to the Capco acquisition.

EBIT margin at 19% was well ahead of our estimate of 17.9%. This was possible because of better margin execution at Capco (18.8% vs. 17.5% expected). TCW (consisting 8 large deals) was reported at US\$ 715mn (vs. US\$ 1.4bn in Q4), of which a significant portion represents net new contracts.

**Robust outlook:** WPRO has guided for 5-7% QoQ CC growth in Q2FY22 (which includes 2-3% growth from the Capco acquisition) on a strong base of Q1. For FY22, management is confident of achieving comfortable double-digit growth, ex-Capco.

**Strong new client addition:** The company reported 129 new customers during Q1 – its highest ever (contributed partially by Capco). A total of 35/12/16 new clients were added in the US\$ 1mn/US\$ 3mn/US\$ 5mn buckets.

**Supply pressure:** A record 12,178 employees were added in Q1 (post Capco) indicating sector-wide supply pressure. WPRO is focused on reskilling and increasing hiring to manage the supply crunch. It plans to hire 6,000 freshers in Q2, besides rolling out wage hikes for 80% of its employees during that quarter.

**Recommend HOLD:** Organisational restructuring has helped WPRO rein in costs despite supply issues. We raise FY22 EPS 16% on higher growth and margin estimates given double-digit organic growth guidance for FY22 and above- expected Capco margins. Recommend HOLD as valuations look stretched.

## Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	WPRO IN/Rs 576
Market cap	US\$ 42.7bn
Free float	26%
3M ADV	US\$ 78.4mn
52wk high/low	Rs 580/Rs 255
Promoter/FPI/DII	74%/9%/17%

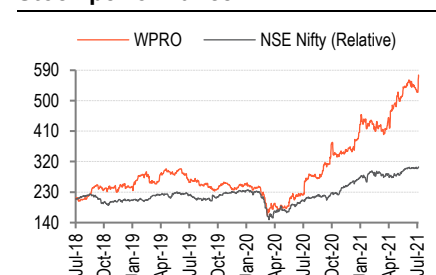
Source: NSE | Price as of 15 Jul 2021

## Key financials

Y/E 31 Mar	FY21P	FY22E	FY23E
Total revenue (Rs mn)	622,425	802,859	912,418
EBITDA (Rs mn)	144,560	174,747	204,676
Adj. net profit (Rs mn)	108,783	129,858	149,502
Adj. EPS (Rs)	19.7	23.5	27.1
Consensus EPS (Rs)	19.7	20.9	23.3
Adj. ROAE (%)	19.5	21.2	21.7
Adj. P/E (x)	29.2	24.5	21.3
EV/EBITDA (x)	21.6	17.8	15.1
Adj. EPS growth (%)	18.1	19.4	15.1

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

## Stock performance



Source: NSE



## Earnings call highlights

- Instead of five service lines earlier (technology infrastructure services, analytics, BPO, product engineering, and mobility and application services), WPRO has streamlined its business into two global service lines:
  - iCORE – cloud infrastructure, digital operations, risk & enterprise cyber security services (39.9% of revenues; grew 3.7% QoQ CC in Q1FY22)
  - iDEAS – integrated digital, engineering & application services (60.1% of revenues; grew 18.3% QoQ CC)
- The Ampion acquisition will be completed in Q2FY22.
- Attrition at 15.5% was up 340bps QoQ.
- DSO at 68 days was down by 7 days QoQ.

**Fig 1 – Quarterly performance**

(Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY20	YoY (%)
<b>US\$ revenues (IT Services excluding ISRE)*</b>	<b>2,415</b>	<b>1,922</b>	<b>25.7</b>	<b>2,152</b>	<b>12.2</b>	<b>8,481</b>	<b>8,256</b>	<b>2.7</b>
<b>Total Revenue</b>	<b>183,684</b>	<b>150,336</b>	<b>22.2</b>	<b>163,340</b>	<b>12.5</b>	<b>648,843</b>	<b>613,401</b>	<b>5.8</b>
Operating Expenditure	151,110	123,495	22.4	129,173	17.0	502,795	508,815	(1.2)
Cost of revenues	127,567	104,625	21.9	109,792	16.2	423,205	436,085	(3.0)
as % of sales	69.4	69.6	-	67.2	-	65.2	71.1	-
SG&A expenses	23,543	18,870	24.8	19,381	21.5	79,590	72,730	9.4
as % of sales	12.8	12.6	-	11.9	-	12.3	11.9	-
<b>EBIT</b>	<b>32,574</b>	<b>26,389</b>	<b>23.4</b>	<b>34,167</b>	<b>(4.7)</b>	<b>121,895</b>	<b>104,586</b>	<b>16.6</b>
Other Income	6,026	4,110	46.6	3,329	81.0	17,223	17,530	(1.8)
PBT	38,600	29,656	30.2	37,496	2.9	139,118	122,516	13.6
Total Tax	6,225	6,838	(9.0)	7,755	(19.7)	28,046	24,799	13.1
<b>Adjusted PAT</b>	<b>32,375</b>	<b>22,818</b>	<b>41.9</b>	<b>29,741</b>	<b>8.9</b>	<b>111,072</b>	<b>97,717</b>	<b>13.7</b>
(Profit)/loss from JV's/Ass/MI	(54)	(211)	-	(20)	-	(472)	(495)	-
APAT after MI	32,321	22,607	43.0	29,721	8.7	110,600	97,222	13.8
Extra ordinary items	0	0	-	0	-	0	0	-
<b>Reported PAT</b>	<b>32,321</b>	<b>23,902</b>	<b>35.2</b>	<b>29,721</b>	<b>8.7</b>	<b>110,600</b>	<b>97,222</b>	<b>13.8</b>
Reported EPS	5.9	4.1	43.8	5.4	8.7	19	16	18.6
<b>Margins (%)</b>								
EBIT margin-IT Services (excluding ISRE)	19.0	19.1	(10)	19.9	(90)	18.0	17.4	60
EBIT	17.7	17.6	20	20.9	(320)	18.8	17.1	170
EBT	21.0	19.7	130	23.0	(190)	21.4	20.0	150
PAT	17.6	15.9	170	18.2	(60)	17.0	15.8	120
Effective Tax rate	16.1	23.1	(690)	20.7	(460)	20.2	20.2	(10)

Source: Company, BOBCAPS Research | \*India business from State Run Enterprises

**Fig 2 – Operating metrics**

(in US\$ terms)	Q1FY22	Growth	
	(% Contr. to Revenue)	QoQ (%)	YoY (%)
<b>Revenue by Vertical</b>			
Global Media & Telecom	5.1	14.4	25.7
Finance Solutions	33.4	22.8	36.7
Manufacturing & Hitech	7.0	(0.6)	8.6
Healthcare, Life Sciences & Services	11.9	2.7	10.8
Retail & Transportation	17.3	14.2	36.7
Energy & Utilities	13.1	11.3	24.7
Technology	12.2	2.1	13.6
<b>Revenue by Geographicity</b>			
Americas 1 +Americas 2	58.1	11.4	22.7
Europe	30.2	19.3	42.1
APMEA	11.7	0.2	6.5
<b>Customer Concentration</b>			
Top customer	3.1	12.2	21.7
Top 5 customers	12.1	11.3	23.6
Top 10 customers	19.8	13.9	22.6
Non-Top 10	80.2	11.8	26.4
<b>Utilisation</b>			
Global IT services ex IFOX -Gross	77.7	76.7	75.0
Global IT services ex IFOX-Net	86.8	86.0	84.5
Global IT services ex IFOX-Net ex trainees	86.8	86.0	84.5
<b>Attrition</b>			
Voluntary Attrition TTM	15.5	12.1	13.0

Source: Company, BOBCAPS Research

## Valuation methodology

The US\$ 1.45bn Capco acquisition (Mar'21) is the biggest in WPRO's history and will strengthen its BFSI vertical. With a multiyear technology upcycle underway, the demand outlook for BFSI looks robust and WPRO will have the advantage of complementary expertise in the vertical via this deal.

We raise FY22/FY23 EPS estimates 16%/10% factoring in higher growth and margins post the Q1 outperformance and management's upbeat Q2FY22 guidance. On rollover, we have a revised Jun'22 TP of Rs 590 (from Rs 470), set at a higher one-year forward P/E multiple of 21.7x (vs. 18.8x earlier) which is two standard deviations above the stock's five-year average. Our upgraded multiple is based on WPRO's strong guidance and its margin performance despite supply-side pressures. We realign our rating from ADD to HOLD (per our new rating scale) as valuations look stretched at 27.4x FY23E EPS.

**Fig 3 – Revised estimates**

(Rs mn)	FY22E			FY23E			FY24E
	Old	New	Change (%)	Old	New	Change (%)	New
IT Services revenues (US\$ mn)	9,723	10,325	6.2	10,808	11,400	5.5	12,445
IT Services revenues (US\$ mn), YoY growth (%)	19.5	26.9		11.2	10.4		9.2
Company Wide Revenues	757,042	802,859	6.1	867,075	912,418	5.2	996,405
EBIT	127,716	148,252	16.1	158,618	174,566	10.1	190,681
EBIT margin (%)	16.9	18.5		18.3	19.1		19.1
Net profits	112,176	129,858	15.8	135,824	149,502	10.1	162,576
EPS (Rs)	20.3	23.5	16.0	24.6	27.1	10.0	29.4

Source: BOBCAPS Research

## Key risks

Key downside risks to our estimates are:

- synergies taking overlong to materialise,
- high competition, and
- sustained low operating margins.

## Sector recommendation snapshot

Stock	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
HCL Technologies	HCLT IN	38	1,040	1,190	BUY
Info Edge	INFOE IN	9	5,211	2,880	SELL
Infosys	INFO IN	90	1,581	1,860	BUY
L&T Infotech	LTI IN	10	4,420	4,710	BUY
Mindtree	MTCL IN	6	2,732	2,270	SELL
Mphasis	MPHL IN	6	2,389	1,580	SELL
Persistent Systems	PSYS IN	3	2,846	1,340	SELL
Tata Consultancy Services	TCS IN	161	3,203	3,890	BUY
Tech Mahindra	TECHM IN	13	1,112	1,190	BUY
Wipro	WPRO IN	43	576	590	HOLD

Source: BOBCAPS Research, NSE | Price as of 15 Jul 2021

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21P	FY22E	FY23E	FY24E
<b>Total revenue</b>	<b>613,401</b>	<b>622,425</b>	<b>802,859</b>	<b>912,418</b>	<b>996,405</b>
EBITDA	124,867	144,560	174,747	204,676	223,563
Depreciation	20,281	20,540	26,494	30,110	32,881
EBIT	104,586	124,020	148,252	174,566	190,681
Net interest inc./(exp.)	16,752	15,824	15,977	17,174	17,799
Other inc./(exp.)	0	0	(51)	0	0
Exceptional items	0	0	0	0	0
EBT	120,589	139,844	164,179	191,741	208,481
Income taxes	24,799	30,345	34,117	42,038	45,705
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	495	716	204	200	200
<b>Reported net profit</b>	<b>95,295</b>	<b>108,783</b>	<b>129,858</b>	<b>149,502</b>	<b>162,576</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>95,295</b>	<b>108,783</b>	<b>129,858</b>	<b>149,502</b>	<b>162,576</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21P	FY22E	FY23E	FY24E
Accounts payables	0	0	0	0	0
Other current liabilities	156,761	164,725	178,169	202,482	221,120
Provisions	612	676	1,980	2,250	2,457
Debt funds	78,042	83,332	83,332	83,332	83,332
Other liabilities	2,825	4,633	4,633	4,633	4,633
Equity capital	11,427	10,958	10,958	10,958	10,958
Reserves & surplus	547,906	543,635	658,068	694,778	742,988
Shareholders' fund	559,333	554,593	669,026	705,736	753,946
<b>Total liab. and equities</b>	<b>797,573</b>	<b>807,959</b>	<b>937,140</b>	<b>998,433</b>	<b>1,065,488</b>
Cash and cash eq.	144,499	169,793	183,062	202,491	240,718
Accounts receivables	104,474	94,298	145,175	164,985	180,172
Inventories	1,865	1,064	6,599	7,499	8,190
Other current assets	108,891	111,925	170,470	193,732	211,565
Investments	203,345	191,811	193,261	193,261	193,261
Net fixed assets	81,120	85,192	84,698	82,588	77,707
CWIP	0	0	0	0	0
Intangible assets	147,374	152,212	152,212	152,212	152,212
Deferred tax assets, net	6,005	1,664	1,664	1,664	1,664
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>797,573</b>	<b>807,959</b>	<b>937,140</b>	<b>998,433</b>	<b>1,065,488</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21P	FY22E	FY23E	FY24E
<b>Cash flow from operations</b>	<b>130,744</b>	<b>130,186</b>	<b>40,370</b>	<b>143,247</b>	<b>162,994</b>
Capital expenditures	(45,057)	(39,531)	(26,000)	(28,000)	(28,000)
Change in investments	0	26,907	(1,450)	0	0
Other investing cash flows	16,752	15,824	15,977	17,174	17,799
<b>Cash flow from investing</b>	<b>(28,305)</b>	<b>3,200</b>	<b>(11,473)</b>	<b>(10,826)</b>	<b>(10,201)</b>
Equities issued/Others	(105,000)	(95,000)	0	(95,000)	(95,000)
Debt raised/repaid	0	0	0	0	0
Interest expenses	0	0	0	0	0
Dividends paid	(11,469)	(13,092)	(15,628)	(17,993)	(19,566)
Other financing cash flows	0	0	0	0	0
<b>Cash flow from financing</b>	<b>(116,469)</b>	<b>(108,092)</b>	<b>(15,628)</b>	<b>(112,993)</b>	<b>(114,566)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(14,029)</b>	<b>25,294</b>	<b>13,269</b>	<b>19,429</b>	<b>38,227</b>
<b>Closing cash &amp; cash eq.</b>	<b>144,499</b>	<b>169,793</b>	<b>183,062</b>	<b>202,491</b>	<b>240,718</b>

### Per Share

Y/E 31 Mar (Rs)	FY20A	FY21P	FY22E	FY23E	FY24E
Reported EPS	16.7	19.7	23.5	27.1	29.4
Adjusted EPS	16.7	19.7	23.5	27.1	29.4
Dividend per share	1.7	2.0	2.4	2.7	2.9
Book value per share	97.9	100.4	121.1	127.8	136.5

### Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21P	FY22E	FY23E	FY24E
EV/Sales	5.2	5.0	3.9	3.4	3.1
EV/EBITDA	25.6	21.6	17.8	15.1	13.7
Adjusted P/E	34.5	29.2	24.5	21.3	19.6
P/BV	5.9	5.7	4.8	4.5	4.2

### DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21P	FY22E	FY23E	FY24E
Tax burden (Net profit/PBT)	79.0	77.8	79.1	78.0	78.0
Interest burden (PBT/EBIT)	115.3	112.8	110.7	109.8	109.3
EBIT margin (EBIT/Revenue)	17.1	19.9	18.5	19.1	19.1
Asset turnover (Rev./Avg TA)	75.2	77.5	92.0	94.3	96.6
Leverage (Avg TA/Avg Equity)	1.4	1.4	1.4	1.4	1.4
Adjusted ROAE	16.9	19.5	21.2	21.7	22.3

### Ratio Analysis

Y/E 31 Mar	FY20A	FY21P	FY22E	FY23E	FY24E
<b>YoY growth (%)</b>					
Revenue	4.1	1.5	29.0	13.6	9.2
EBITDA	2.6	15.8	20.9	17.1	9.2
Adjusted EPS	11.6	18.1	19.4	15.1	8.7
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	20.4	23.2	21.8	22.4	22.4
EBIT margin	17.1	19.9	18.5	19.1	19.1
Adjusted profit margin	15.5	17.5	16.2	16.4	16.3
Adjusted ROAE	16.9	19.5	21.2	21.7	22.3
ROCE	20.7	25.6	28.3	29.9	31.9
<b>Working capital days (days)</b>					
Receivables	61	58	54	62	63
Inventory	2	1	2	3	4
Payables	113	118	96	94	96
<b>Ratios (x)</b>					
Gross asset turnover	8.1	7.5	9.5	10.9	12.4
Current ratio	2.3	2.3	2.8	2.8	2.9
Net interest coverage ratio	6.2	7.8	9.3	10.2	10.7
Adjusted debt/equity	(0.1)	(0.2)	(0.1)	(0.2)	(0.2)

Source: Company, BOBCAPS Research | Note: TA = Total Assets

## Disclaimer

### Recommendation scale: Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

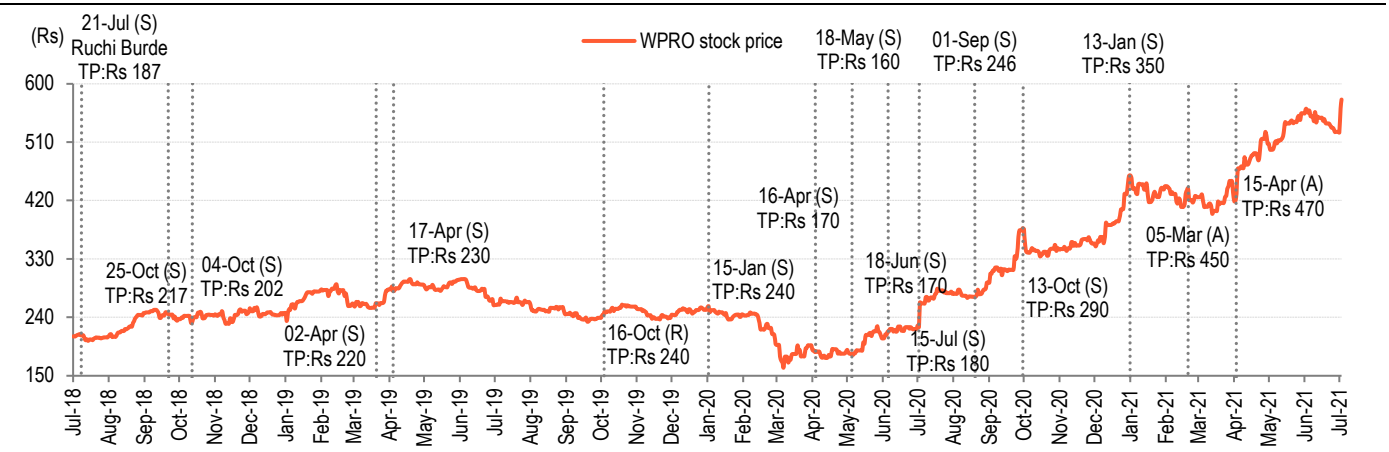
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

### Ratings and Target Price (3-year history): WIPRO (WPRO IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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